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BEFORE THE ARIZONA CORPORATION**COMMISSIONERS**

BOB STUMP - Chairman
 GARY PIERCE
 BRENDA BURNS
 BOB BURNS
 SUSAN BITTER SMITH

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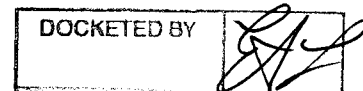
2014 JUL 1 AM 9 35

IN THE MATTER OF THE APPLICATION OF
 SOUTHWESTERN TELEPHONE COMPANY, AN
 ARIZONA CORPORATION, FOR A HEARING
 TO DETERMINE THE EARNINGS OF THE
 COMPANY, THE FAIR VALUE OF THE
 COMPANY FOR RATEMAKING PURPOSES,
 AND TO INCREASE RESIDENTIAL RATES AS
 NECESSARY TO COMPENSATE FOR THE RATE
 IMPACTS OF THE FCC'S USF/ICC
 TRANSFORMATION ORDER.

DOCKET NO. T-01072A-13-0412
 Arizona Corporation Commission

DOCKETED

JUL 1 2014

**PROCEDURAL ORDER****BY THE COMMISSION:**

On November 27, 2013, Southwestern Telephone Company ("Southwestern") filed with the Arizona Corporation Commission ("Commission") pursuant to A.R.S. §40-250 and Arizona Administrative Code ("A.A.C.") R14-2-103 for an increase in its residential rates in order to compensate for the rate impacts of the Federal Communication Commission's ("FCC") November 18, 2011, USF/ICC Transformation Order ("*USF/ICC Order*"). Southwestern requested that the Commission approve a basic local access line rate of the lesser of \$19.00, or the floor rate to be set by the FCC, and in order to avoid the loss of federal funding for high-cost loop support, requested that the new rates go into effect by June 1, 2014.

By Procedural Order dated January 23, 2014, the matter was set for hearing on March 25, 2014.

On March 21, 2014, Southwestern filed a Notice of the new FCC Rate Floor, attaching a copy of the FCC's Public Notice DA14-384 dated March 20, 2014, in which the FCC announced a floor of \$20.46. The FCC did not extend the June 1, 2014, deadline for implementing the new floor rate.

The hearing convened as scheduled on March 25, 2014, at which time Southwestern requested that its local exchange rates be set at the FCC Floor Rate of \$20.46. Staff recommended that the local

1 exchange rate be set no higher than \$19.00, because that was the maximum rate requested in the
2 application.

3 On April 23, 2014, the FCC met in Open Meeting and, as it relates to this proceeding, adopted
4 a Seventh Order on Reconsideration of its *USF/ICC Order* and a Notice of Further Rulemaking, in
5 which it purportedly delayed imposition of the rule increasing the local service rate floor from June 1,
6 2014, until December 2014, and indicated that it would phase-in the full impact of the rule over a
7 multi-year period.

8 On April 28, 2014 and May 7, 2014, the affected carriers and Staff participated in two
9 telephonic procedural conferences to discuss the implications of the FCC's actions and whether the
10 Commission needed to approve new rates by June 1, 2014, in order to preserve the current levels of
11 federal high cost loop support. The Order adopted at the FCC's April 23, 2014 Open Meeting, had
12 not yet been released, and no party was certain of its specific provisions. Staff recommended
13 delaying Commission action on the rate applications until the FCC's actions were known, however
14 without knowing the details of the forthcoming order, the carriers were reluctant to risk not having
15 new rates in place by June 1st. On or about May 8, 2014, based on additional information, the affected
16 carriers agreed that the Commission could delay taking action on their rate applications until the
17 FCC's Order was released.

18 The FCC's Order was released on June 10, 2014. This Order grants a waiver of the provision
19 that would cut high cost loop support for carriers if their rates are \$14 or higher as of June 1, 2014.
20 In addition, it establishes a phase-in of the floor rate that calls for local rates to be at or above \$16 by
21 December 1, 2014, at or above \$18 by June 1, 2016, and at or above \$20 by June 1, 2017.¹

22 Given the events at the federal level, the Commission now seeks revised substantive and
23 procedural recommendations for how to proceed in these dockets. Specifically, what rates and time
24 frame for implementation, do the parties now recommend? Can, or should, the Commission
25 implement the recommended rates without re-opening the hearing? Given intervening events and any
26 new recommendations, have these matters been adequately noticed? What are the procedural

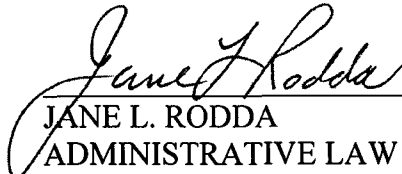
27 ¹ *Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration*
28 *and Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, WT Docket No. 10-208, WC Docket No. 14-58,
WC Docket No. 07-135, CC Docket No. 01-92, Released June 10, 2014 ("Seventh Reconsideration Order") at ¶ 80.

1 recommendations for addressing future rate increases beyond December 1, 2014?²

2 IT IS THEREFORE ORDERED that the parties shall file updated substantive and
3 procedural recommendations for further action in this docket, as discussed herein, by July 31,
4 2014.

5 IT IS FURTHER ORDERED that the Administrative Law Judge may rescind, alter, amend,
6 or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at
7 hearing.

8 DATED this 1st day of July, 2014.


9
10 
11 JANE L. RODDA
ADMINISTRATIVE LAW JUDGE

12 Copies of the foregoing mailed/delivered
13 this 1st day of July, 2014, to:

14 Craig A. Marks
15 Craig A Marks, PLC
10645 N. Tatum Blvd, Ste. 200-676
16 Phoenix, AZ 85028
Attorney for Southwestern Telephone Co.

17 Janice Alward, Chief Counsel
18 Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
19 Phoenix, AZ 85007

20 Steven M. Olea, Director
21 Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
22 Phoenix, AZ 85007

23 By: 
24 Rebecca Unquera
Assistant to Jane L. Rodda

25
26
27
28 ² The parties are not limited to these questions and should consider a process for future rate increases that accommodates the FCC's multi-year phase-in and comports with Commission policies and rules for processing rate cases.